

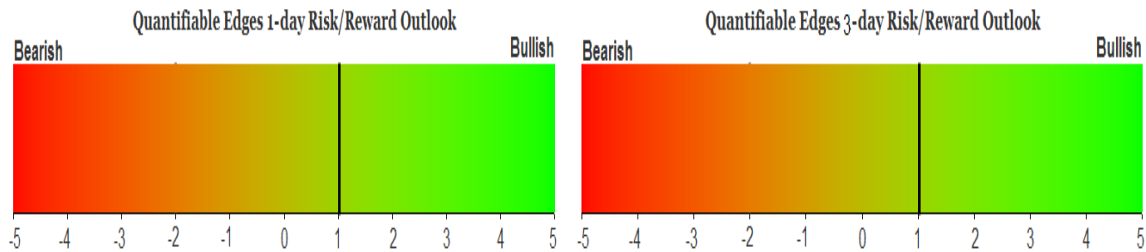
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 3, 2012

Volume 5 Issue 23

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

Tonight's Research Points

- Employment Days above the 200ma used to be bullish. Now just blah.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral but the evidence is suggesting we could see more upside. I'm continuing to ride the remainder of my small position.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 2, 2012	50-high then 5-day consolidation	1-3 days	Bullish	1.10%
February 1, 2012	Selloff at month end	1-5 days	Bullish	2.35%
January 31, 2012	SPX 1st close < 10ma in under 25 days	1-4 days	Bullish	1.80%
January 31, 2012	SPY 3-day pullback. Today is Monday.	1-4 days	Bullish	2.30%
Active - Long Term				
February 2, 2012	50-high then 5-day consolidation	1-10 days	Bullish	2.30%
January 31, 2012	SPX 1st close < 10ma in under 25 days	1-20 days	Bullish	4.70%
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
October 19, 2011	FTD on strong breadth/20day high	int term	Bullish	
Dropped Tonight				
January 26, 2012	SPX 100-day high on Fed Day	1-6 days	Bullish	1.60%
February 1, 2012	SPX down. Up Issues % > 55%.	1-2 days	Bullish	

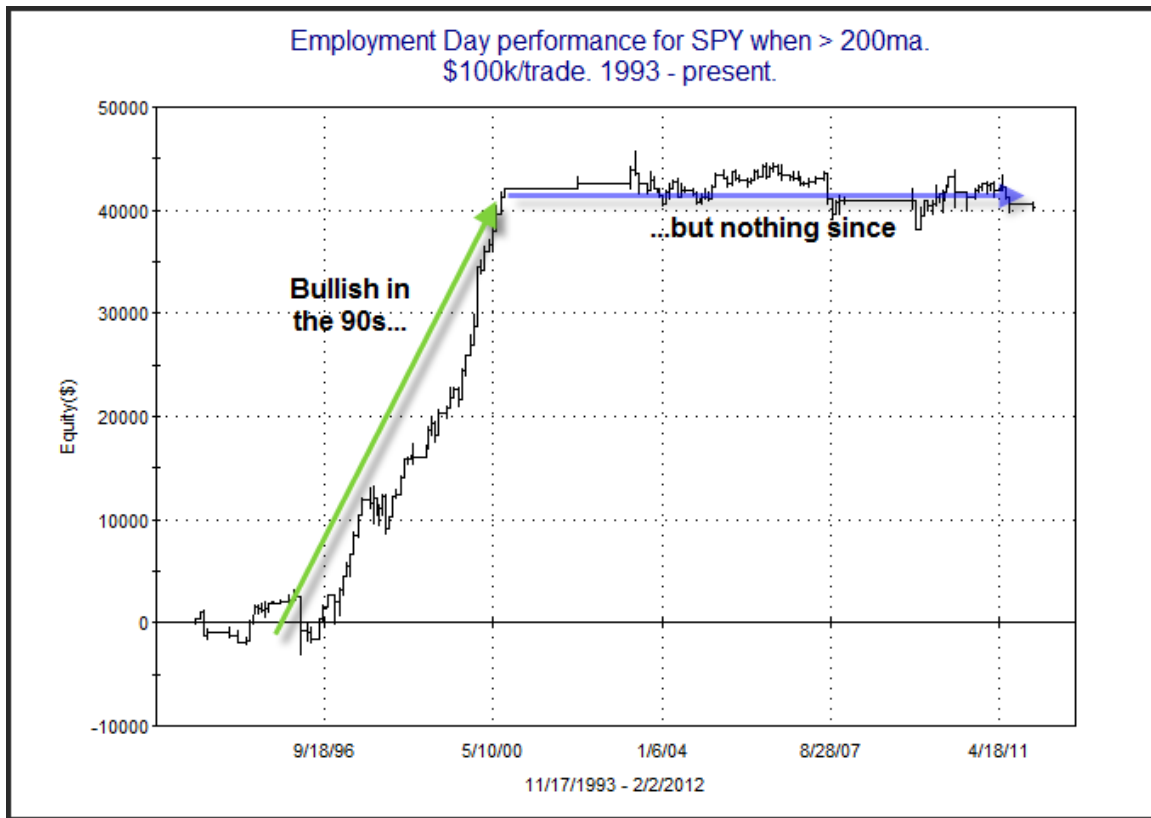
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

Thursday was largely uneventful as the market never got very far from breakeven. In the end the SPX rose 0.1%, and the Nasdaq and Russell 2000 each gained 0.4%. Breadth was modestly positive with both the NYSE Up Issues % and Up Volume % at 58%. Total NYSE dipped a little for the 2nd day in a row.

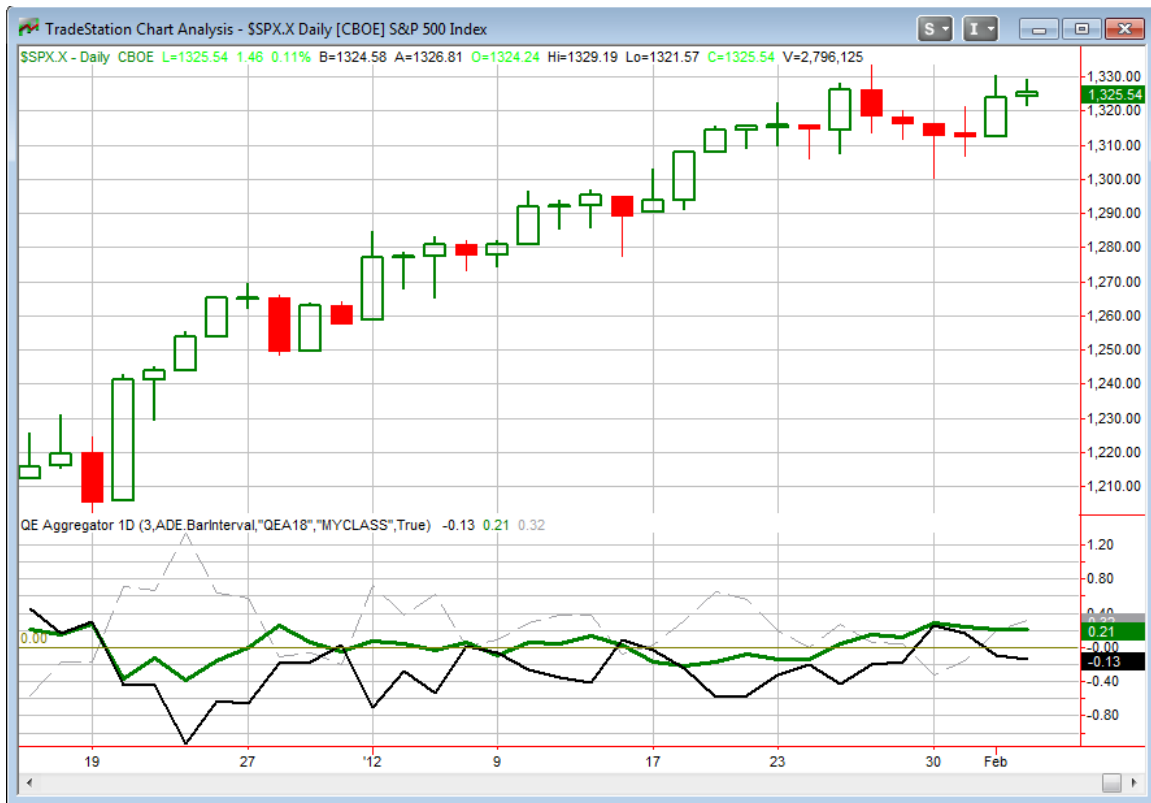
The mild action failed to spark anything compelling in the Quantifinder. Inside days can sometimes be bearish, but that is primarily below the 200ma – not above it as we are now. But while there is no strong new evidence to discuss tonight, it is notable that tomorrow is an Employment Day. By that I mean that the Federal Employment Report will be released. This occurs once per month and is normally on the 1st Friday of the month.

Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Subscribers that would like to study Employment Days can find functions for them in the QE Indicators & Functions for Tradestation code available in the members section. Below is a chart of SPY performance on Employment Days. For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional \$100k.



What I find so interesting about the chart is that for a long time Employment Days in uptrends showed a strong propensity for gains. But in 2000 this edge vanished. Since then there has been no apparent advantage – bullish or bearish. While it unusual to see such an abrupt change in market dynamics, it does provide a lesson for us. Before jumping to conclusions about edges based on statistical tables, it is important to also consider equity curves such as this one.

I have updated the [Aggregator](#) chart below.



With short-term evidence all still bullish the green Aggregator line is strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is again mildly below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bullish but the SPX is overbought versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator System to remain flat at the close. This was indicated as likely on the systems page before the bell.

Based on the current active studies, expectations are scheduled to remain positive on Friday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,320.86 on Friday. This means the SPX will need to drop about 0.35% in order to turn the Differential Line positive.

Very little has changed since last night. Though overbought, expectations remain positive. And evidence is compelling enough and the SPX is so mildly overbought that I'm inclined to ride the remaining portion of my small index position a little longer.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/30 – bullish

The intermediate-term outlook was last updated in the 1/30/12 letter. A link is below:

[2012-01-30 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight. .

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/30/2012	\$131.37	\$132.68	1.00%	\$131.37	<i>sold 1/2 on close</i>

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